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University of Montana economist predicts 1968 will bring "worse trouble"

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WILL BRING "WORSE TROUBLE"

MISSOULA--

Dr. Sam Chase, a professor of economics at the University of Montana recently made some predictions about the state of the U.S. economy during the coming year.

A native of Great Falls, Dr. Chase was graduated from Dartmouth and received his doctorate from the University of California at Berkeley. He has served as a financial economist at the Federal Reserve Bank in Kansas City, as a consultant for the Bureau of the Budget and has taught at the Universities of Maryland and Illinois.

Dr. Chase said the economy will have a lot of problems in the near future and most of them will come from inflation. Inflation, he said, is threatening to upset the uninterrupted economic prosperity this country has experienced over the last six years. This period has been the longest peace-time boom since 1900.

A former member of the senior staff of the Brookings Institute in Washington, D.C., Dr. Chase pointed out that in August of 1967 Pres. Johnson predicted a budget deficit of $28 billion for the current fiscal year. While predicting this record deficit, the President also called for a tax increase and budget cuts. The tax increase failed in Congress, and according to Dr. Chase the budget cuts wouldn't be enough to curb the current inflationary tendencies of the economy.

The cure for inflation will have to come, according to Dr. Chase, through the restraint of spending by tight fiscal policy, which means a balanced budget with surplus money, and through tight monetary policy which involves a slow growth of bank credit and money coupled with high interest rates and a slowing of the demand for goods and services. Also involved is pushing up the rate of unemployment, Dr. Chase said.

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He pointed to the period between 1958 and 1961 as an example. After this era of high unemployment and stable prices, the economy began to turn the other way. From 1961 to 1965 there was the biggest recorded combination of fiscal and monetary stimulus ever given the U.S. economy, Dr. Chase said. Unemployment began to move back to the four per cent level, but prices began to increase from one to one and one half per cent a year, clearly inflationary. This continued until 1966 when prices rose three per cent. Then tight money policies were invoked by the Federal Reserve, Dr. Chase said.

"The economy slowed and the heat was taken off," he said. Monetary growth resumed in 1967.

But, "There is worse trouble ahead," he said. It appears that the economy will be strong during the first half of 1968, and there should be increases in demand. This will result from such inflationary measures as the six per cent wage settlement by the Ford company, a dangerous precedent according to Dr. Chase.

"Inflation has begun and the pressure is on to stop it. The cure, in the near term, will have to come not from tight fiscal policy, but from tight money," he said.

Dr. Chase gave two main reasons why the U.S. can't afford to inflate now. The first is the crucial balance of payments problem. If we inflate now, our export prices go up and we lose foreign market, but the prices of import goods go down and people want to buy more, and we won't be able to protect our gold reserves.

The second reason is the morality of inflation. During inflation, the persons on fixed incomes are hurt by the decrease in purchasing power of their money. These people, Dr. Chase said, are usually "the small guys" who depend upon price stability which the government has promised.

"We have strong medicine to take. The only ways out are tight fiscal policy meaning high taxes and less spending, tight monetary policy, meaning a less rapid growth of bank credit, fewer bank deposits, higher interest rates and lessened spending or government controls," Dr. Chase said.

He said he thinks there will be more direct controls by the government in the international balance of payments area and this will be a "shaking experience after five or six years of uninterrupted prosperity."